



Bulgaria

CONSTRUCTION SECTOR OPPORTUNITIES

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SUMMARY

Since 2004, the construction sector is one of the most dynamic and developing sectors in Bulgaria (construction, IT, tourism, services and industry). The construction market is generating sustained growth, and is providing vast opportunities for both foreign and domestic firms. The growth is driven by the intensive work on transport infrastructure; the expansion of new developer projects for business and administrative centers; the increased housing construction work and active construction for manufacturing and other purposes. The recent promotion of mortgage lending by the major banks is also fueling housing construction.

MARKET OVERVIEW

The industry reported over 4 billion EUR (US\$ 6 billion) in completed construction in 2006, which was about 7 per cent of GDP. There are more than 11 500 companies in this sector, which has produced annual growth rates of 12-18 per cent over the past few years. Firms in the construction business in Bulgaria are employing about 150,000 people. Some 10 000 Bulgarians are employed in construction in Germany, Spain, UK and in the former socialist Eastern European countries (respectively 175,000 hired in the Bulgarian construction sector in 2007).

Since 2002, Bulgaria's booming real estate market has significantly contributed to the Construction industry's position as one of the fastest growing sectors. Unfortunately, the Construction sector has the highest level of unregistered labor, and according to the Bulgarian Construction Chamber, Bulgaria is in need of approximately 20,000 construction workers to handle the high demand.

Sofia, the capital of Bulgaria, is witnessing more development than any other city in Bulgaria. Pre-leasing activity within the major shopping centers will increase rapidly with over 180,000 m2 of new space expected in the next year.

Retail

Growing income and consumer demand have lead to a rapid development of malls, retail centers and out-of-town hypermarkets in Bulgaria, according to an Oxford Business Group report. Bulgaria continues to catch up with other developed retail markets in Western Europe. A forecast for the country predicts a doubling in the number of foreign retailers entering the market in the next five years. Throughout the country, European-style hypermarkets and international luxury stores, particularly in Sofia, are expanding to compete with traditional Bulgaria neighborhood shops. New Western-style shopping centers, once confined to Sofia, are now operating or under construction in nearly all of the Bulgarian cities with a population of over 50,000. The German discounter Plus has announced its intention to join in the ranks of Kaufland

and Lithuanian chain VP Market who are already market players in Bulgaria. Other international retailers in the country include Metro, Hit, REWE firm Billa and Ramstore. Until recently the Bulgarian consumer market was considered too small compared to that of neighboring Romania, however now it is drawing the attention of hypermarket giants, including France's Carrefour and Germany's Lidl.

The retail boom also includes the development of local companies, such as Bulgarian supermarket operator Piccadilly, Technolux and Zora (electronics); Praktis (DIY store); Aiko, Domko, Aron, Labirint and Martineli (furniture).

Major hypermarkets that have operations in the country include Carrefour (France), Praktiker (Germany), Billa (Austria), Metro Cash & Carry (Germany), Ena (Greece), Mobexpert (Romania), BauMax (Austria) and Kaufland (Germany).

Shopping centers development lowered slightly high street rent levels but they are not expected to become less demanded in the short and medium terms.

Best prospects include:

- Regional shopping centers in the Sofia area;
- Specialty retail stores in downtown of Varna;
- Retail schemes, such as retail parks and retail warehousing clusters (not yet existing in Bulgaria);
- City center retail/leisure complexes in winter resorts
- Retail outlets in airports and major railway stations

Housing:

The Bulgarian housing sector is growing, however the office, retail, and industrial segments are lagging behind. For many years the housing market was held back due to a lack of family purchasing power and the comparatively undeveloped state of the local mortgage market. The prevailing family accommodation in Bulgaria is a two-bedroom flat in a city and a single-generation house in the countryside. The average price for a small flat is 54,000- 60,000 EUR (US\$84,780 -94,200).

Current Bulgarian housing stock includes apartment buildings from the 60s - 70s and single-family houses, many in need of repair, as well as Soviet era panel apartment buildings. These pre-fabricated lodgings amount to 25% of all housing in Bulgaria and the brick dwellings account for 60% of the market. In the period 1959- 1990 there were more than 800,000 pre-fabricated apartments built. The number of such apartments in Sofia exceeds 200,000 and about 90% are privately owned.

The market for new housing in Bulgaria has expanded dramatically, because tenants from state-regulated housing are looking for improved accommodation. The most common type of apartment buildings is monolith construction framework - a beamless structure with bearing reinforced concrete discs and columns. Rents remain high relative to typical earnings. Bulgaria also has an aging population, which means that specialized retirement communities (still unpopular here) may become a growing market segment in the future.

The market for large, luxury homes is not saturated. The population continues a migration

toward Sofia, making the capital city the area with the highest potential for growth.

Best prospects include:

- Technology, equipment and construction of sewage and wastewater treatment plants;
- Design and construction of residential gated communities;
- Restoration of historical structures for high-end market;
- Construction of small apartments and small stand-alone homes or townhouses for small families;
- Industrial Park development;
- Retirement communities for high-end consumers;
- Heavy Construction Equipment;
- Environmentally friendly building products.

In 2007, a total of 2218 new apartment buildings were built in Bulgaria, according to data provided by the National Statistical Institute (NSI). The new construction has brought 18 204 new apartments, increasing the total number of homes in the country to 3 746 758. Of these 2 372 522 are in the cities and towns (527 916 in the capital Sofia), and 1 374 236 are located in the villages. According to the NSI, the average number of people per one home is 2,04 (down from 2,06 in 2006). The average residential area per person is 20,13 square meters, with 17,72 square meters in the cities and towns, and 25,96 in the villages.

The trend of expanding the area per person in the housing sector has continued into the year 2008. The construction industry sector offers broad opportunities as the cost of construction process (labor) and local building materials (concrete, cement, bricks, mortar, sand, etc) are fairly low, while the demand for modern and high quality commercial, residential and industrial properties is still high. Bulgarian and foreign banks are fiercely competing to lend money to businesses and households for the purchase of real estate.

Amendments to the Sofia city Master Plan also presents important opportunities for U.S. architectural/engineering services firms. Major projects to be completed by the year 2010, include:

- Shutting down the steel plant Kremikovtzi, (for its emissions), and the building of new residential districts in the northern and north-western city areas;
- Building of a new city cemetery;
- Extended metro line connecting northwestern suburban area, to Cherni Vrach Blvd.
- The new Sofia city plan includes the construction of intercity roads, highway overpasses, access roads to motorways, etc.

Infrastructure

The construction of a new container terminal, located on the northern coast of Varna lake is scheduled to begin in 2008. Varna municipality has earmarked 17.5 ha for the new terminal. The total costs for Varna and a similar terminal in Burgas are estimated at 500 million euro (US\$ 750 million). Part of the costs will be covered by a loan from the Japan Bank for International Co-operation, which agreed to extend 226 million euro (US\$339 million) to finance the construction of container terminals in Varna and Burgas.

Bulgaria, which joined the EU on January 1, 2007, is eligible for more than two billion euro (US\$3 billion) from regional transport and infrastructure programs up until 2013. The GOB is planning to invest more than US\$25million in improvement and rehabilitation infrastructure projects by 2011. A significant portion of the funds will be spent to overcome (rebuild?) the

recent natural calamity damages in nine municipalities. Approximately US\$8 million are allocated for new road construction and rehabilitation of the existing road network, and about US\$9 million is allocated for water supply equipment, water systems construction and rehabilitation. The development of an information system for administrative and municipality services will cost more than US\$1 million. These financial resources are coming from the accounts of three unutilized state investment loans.

Best prospects for American companies include: establishment of the intermodal terminal in Sofia (25 million EUR or US\$37,5 million), construction of Maritza motorway (210 million EUR or US\$315million); railway network refurbishment and development (320 million EUR or US\$480 million); safety upgrade and modernization of the Sofia-Plovdiv train network (US\$187,5 million) Vratza –Botevgrad highway construction and maintenance (US\$1,027,500 million); and second Danube river bridge - railway and road infrastructure development (US\$339 million). New and innovative techniques and equipment offered by U.S. firms are held in high esteem, but face strong competition from both domestic (Bulgarian engineering firms are large and internationally experienced) and foreign (mainly Austrian, French and German) counterparts. It is strongly advisable that U.S. firms enter this market sector in association with a well-established local firm.

MARKET TRENDS

Bulgarians take great pride in purchasing their own homes therefore investing in a home is an important life experience for them. In 2008, the majority of the Bulgarian buyers are looking to buy residential property that will serve their current needs rather than purchasing a home for future profitability. The Bulgarian emigrant workers are investing back into the country, in particular the retail and housing sectors and thus providing a boost to the construction industry and the Bulgarian economy. According to World Bank, remittances from Bulgarians working abroad exceeded 1,5 billion EUR (US\$2,25 billion) in 2007.

In 2005, the Bulgarian Government stimulated the housing market by lowering mortgage interest rates, and consequently, the construction industry sector benefited from the constant upgrading of old houses and buildings. There are thousands of prefabricated apartments and lodgings in dwelling complexes, as well as old houses that are in need of rehabilitation, renovations and investment. Mortgage lending has outpaced all other banking segments, posting end-June 08 growth rates of 72.4 per cent and 74.6 per cent in 2006 and 2007, respectively. However, the mid-2008 growth rate of 53 per cent indicates a moderate slow-down in mortgage lending. The central bank attributed the robust household lending market to positive trends in employment and income growth.

The tourist industry is also enabling the construction industry to flourish. Bulgaria is one of Europe's most popular destinations. Therefore, projects to modernize infrastructure are either in process or in the planning stages, such as the construction of high-speed rail links (Sofia-Varna, Sofia –Burgas and Sofia to the Greek border), the expansion of the motorway system and improving the capacity of the airports.

The basic indicators in the construction industry are: the high consumption of concrete and well developed network of ready-mix concrete units; the number of buildings raised in the last fifteen years; and the volume of civil works.

In 2008, the rate of growth in the construction sector is expected to be around 11.3 per cent, as Bulgaria's biggest priority will be its infrastructure. The construction industry sector always has a multiplying effect upon the rest of the economy, however it is also affected by the health of the economy. Bulgaria appears to have escaped, for now, the impact of the global credit crunch, but growth is projected at 5.5 per cent in the second quarter down from 7 per cent in the first quarter. While the boom in the construction of low-priced holiday homes for British and Irish investors has subsided, foreign investment still drives demand for high-quality residential and commercial property in larger cities.

Mortgage lending in 2007 grew by 67 per cent, reaching 2.2 billion BGN (US\$1,8 billion). Some 60 percent of the total number of construction permits issued last year was for residential buildings which is a testament to the rapid growth in the residential sector. The forecast is for growth in the construction industry to moderate over the next few years however the sector should remain strong due to several factors including: migration; lending; 8 to 12 per cent increase in household income; and home purchases by Bulgarians living abroad. At present, investments in construction amount to 42 percent of the total volume of investments in Bulgaria. The construction sector growth over the next four-five years will also be dependent on the Government's ability to provide an adequate regulatory framework.

The following table represents the current average yields in different property sectors in Bulgaria and Romania.

Annual ROI (Returns on Investment) in percent in 2007:

	Bulgaria (%)	Romania (%)
Office Space	7.5	6.5
Retail Centers	8.5	7.5
Logistic Projects	9.0	8.0

SALES PROSPECTS

American construction products are well accepted and regarded within the sector. However, European and other foreign firms have the advantage of proximity, which means lower prices. Moreover, there is small qualified local industry which enjoys a good reputation and the ability to either produce or source raw materials needed for construction. Therefore, U.S. products are not well known or perceived to be too expensive. New building standardization and security regulations that will now need to be met and a constant increase in demand for higher quality products by homeowners could change market receptivity for U.S. products.

In a few years, Bulgaria will adopt the Euro as its currency, which is fueling demand for housing construction since Bulgarians are looking to invest their savings in real estate.

The regions in Bulgaria that registered the highest growth in construction are Russe, Varna, Burgas, Blagoevgrad, Stara Zagora, Plovdiv and Sofia. There were slight increases in Veliko Turnovo, Pleven, Sliven and Dobrich..

Housing: The sub-sector of buildings as a whole (homes included) within the construction sector increased approximately 6.9 per cent for the period April 2007-April 2008.

With respect to new homes built (excluding any other types of buildings), the period 2006 - 2007 registered more than 25,000 completed homes compared to 2004 when only 8267 homes were completed.

There was a three-fold increase in the number of construction permits issued in 2006 and 2007 as well. The significant growth and upsurge in the construction industry sector is due to the housing development in Sofia, the winter resorts and the coastal cities. In Bulgaria, the share of new housing construction is approximately 50 per cent of the overall construction process of new buildings. The residential market segment will continue developing very actively. The housing sector reached 7,099,000 billion EUR (US\$10,648,500) in 2007. The forecast for 2008 is an increase of approximately 1, 4%. Given the strong growth in the construction sector, Bulgarian companies are inclined to look for competitively priced collaborators from the US and Europe.

Entertainment & Leisure: Tourism is a fast growing industry in Bulgaria. The architecture, construction and civil engineering services sectors are trying to keep up with the demand for new hotels, restaurants, holiday villages, amusement parks, and shopping centers.. Demand for hotel rooms is constantly on the rise. U.S. firms specializing in the tourism and entertainment industry will experience exciting opportunities in this market niche.

The maturing of the property market over the last few years has lifted Bulgaria to the next level, which is the development of golf courses. The country offers major opportunities for American companies in the area of golf courses design and development. There are many attractive places along the Black Sea and inland that are attractive tourist sites for golf-lovers.

The combination of thermal waters, their variety and purity, the moderate-to-continental climate and the Mediterranean influence, provides opportunities for spa design specialists who focus on tourism and recreation projects. During the next several years there will be a strong focus on the development of spa centers in the mountain tourist resorts and seaside areas. More than 70 four- and –five star hotels in Bulgaria have their own spa centers and the number is growing.

Logistic centers and wholesale stores: Bulgaria's location is extremely favorable for investment in logistics projects, although it is not yet observed the rapid growth typical for countries like Poland and the Czech Republic. Currently such centers and stores are in short supply and this fact predetermines the high rent price per sq. meter. Such complexes require significant area and land, available access roads and good adjacent infrastructure. In related news, a market survey by property consultants Cushman & Wakefield show that Bulgaria offers the most expensive for-rent contemporary storage space in Central and Eastern Europe with rates starting at 7 euro/sq m. Most industry professionals believe that new retailers entering the market will actually accelerate the development of logistic centers. Prices for land, suitable for logistic activities in Sofia, average between EUR 50 and 60 (US\$75-US\$90) per sq m. Another drawback for developers is the fact that the process takes too much time from land purchase, provision of public utilities to obtaining construction permits.

Industrial Zones: No less than 100 industrial zones are planned to build under Bulgaria's export strategy for the 2008-2013 period. The effort will be backed with the disbursement of US\$80 million annually.

Rules concerning how the municipalities will apply for the funding have not been set.

The Ministry of Economy estimates the average cost per industrial zone at around US\$4, 8 million. The Bulgarian Parliament will either adopt a separate law or make the relevant amendments to the Investment Promotion Act to provide a legislative definition of the term industrial zone. The same ministry will fine-tune its treatment of investors, attaching priority to projects that create value added and products that have worldwide marketability.

Office space: The office space market is not showing any signs of a slowdown in the last two years. Some 850,000 sq m of office properties are under construction at the moment with another 800,000 sq m on the drawing boards.

The undersupply of Class A office space is keeping vacancy levels at around 3%. U.S. companies specialized in innovative and hi-tech solutions in the office building have vast opportunities in Bulgaria.

Safety: Safety in architecture, construction and in engineering is a growing concern. Several serious accidents causing the death of construction workers have alarmed the development community on the dangers and risks involved. Security and safety products and equipment and construction risk consultants may find a good niche in Bulgaria.

MARKET ACCESS

Since there is a large variety of construction equipment/products, import duties for U.S. products cannot be determined unless the specific kind of equipment is known. It usually ranges from 0 to 10% plus a 20% V.A.T tax. Duties should be checked on a case-by-case basis. Additional detailed information on Custom's duties may be obtained from website: www.customs.bg. Information is available in English and Bulgarian.

Considering that the architecture, construction and civil engineering services industries are undergoing many developmental changes, quality, competitive prices, and a commitment to an ongoing service relationship are very important. Face to face contacts are also essential and show a commitment to the market. The architectural community is rather exclusive and it may be difficult for U.S. companies to enter this market without a Bulgarian partner.

Some leading U.S. firms have found that a significant amount of lobbying is necessary to win the larger and more competitive projects. The architecture, construction, and civil engineering trade associations and chambers are good reference points.

Bulgaria, like other EU countries, has a market economy with the free movement of capital, and business profits can be transferred without restriction.

In general, foreign products are imported by irrevocable letter of credit. When there is a continued relationship between the exporter and importer/distributor, other forms of payment can be negotiated.

Additional information on marketing U. S. products and services in Bulgaria is contained in the "Country Commercial Guide" report for Bulgaria, which is available at the website: www.buyusa.gov/bulgaria/en/ccg.html

UPCOMING TRADE SHOWS

Stroytech -The City

Date: 29 September to 04 October, 2008

Stroytech -The City is the largest trade show for building products, equipment and technologies within the International Plovdiv Fair. The event is dedicated to the commercial concrete and masonry construction industries. Exhibitors are local and international suppliers of construction innovative products, technologies, tools and equipment

Venue: International Fair Plovdiv, town of Plovdiv, Bulgaria.

Bulgaria Building Week

Date: 10 March to 14-March 2009

The latest and most innovative home products, technologies and design trends can be found in the Bulgaria Building Week. Bulgaria Building Week is an event where builders, remodelers, developers, dealers and distributors are coming to exhibit their services and products.

Venue: Exhibition Center, Sofia, Bulgaria.

Important

Europe has the "Structural/Cohesion Funds". U.S. firms are eligible to compete for part of the European Union's portion: EUR 2,003,481,163.68 (US\$3,005,221,744) is to be disbursed during the 6-year period (2007-2013) in construction/infrastructure. The goal of the operational program on transport (OPT) in Bulgaria is development of railway, road and waterway infrastructure, as well as stimulation of development of mixed transport in accordance with the transport policy of the European Union and the established requirements for development of the Trans-European transport network in order to achieve stability of the Bulgarian transport system.

The Structural Funds are non-reimbursable grants given to projects intended to boost the economic development of underdeveloped regions throughout all of Europe, without restrictions on any specific sector.

U.S. firms established in one of the 27 European countries are considered as "European firm", and as such, are eligible. U.S. firms, which do not have a subsidiary, should partner with an established European firm either via joint venture or a Public Private Partnership.

TRADE PROMOTION OPPORTUNITIES

Commercial Service Bulgaria offers a whole range of products and services for U.S. companies seeking business partners in Bulgaria. These services include up-to-date market information, assessment of a U.S. firm's product sales potential, identification of potential representatives, individual counseling, trade missions, setting up appointments with screened firms, etc.

For additional information on the products and services provided by CS Bulgaria, we invite you to contact our new website: www.buyusa.gov/bulgaria/en.

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